

WHY CONVERTIBLE ARBITRAGE IS A TRUE MARKET NEUTRAL STRATEGY

Ask the PORTFOLIO
MANAGER

How does convertible arbitrage perform in different markets?

Transcript of a video recorded on November 30, 2017.

Eli Pars, Co-CIO, Head of Alternative Strategies and Co-Head of Convertible Strategies, Senior Co-PM, explains that convertible arbitrage has performed well in most equity market environments—and that the strategy has done its best in declining equity markets historically.

The nice thing is it tends to perform well in most equity market environments. In a rising market, you benefit from the net long, the net long embedded in the hedge. So you can make a little bit of money there and you can trade around the volatility. It tends to do a little better in more volatile markets.

The interesting thing is, historically, it's often done its best in declining equity markets. Now, sometimes it depends on the nature of the equity market and the nature of the bear market, but if you look back to the early 2000s when the equity market sold off materially, convert arb did really well. Investors made money, made significant money in a lot of cases, when the equity market was down.

That wasn't the case in 2008 when it was more of a financial crisis, but it's kind of helpful for investors as they look forward and think where the next bear market might be. If to the extent you're in the camp that you think that ultimately it'll be an over-valued equity market that corrects similar to what we had in the early 2000s, that could quite possibly be a very nice environment for convert arb.



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Video recorded 11/30/2017.

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INVESTMENTS

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